

ACCRUALS AND PREPAYMENTS – LECTURE EXAMPLES

- 1 A business has received and paid the following electricity bills during the year ended 31st December 2012:

Quarter ended 28 th February 2012	£162
Quarter ended 31 st May 2012	£185
Quarter ended 31 st August 2012	£196
Quarter ended 30 th November 2012	£213

What is the necessary accrual at 31st December 2012?

Accrual = 1 month electricity

1 month accrual = $213 / 3 = £71$ or $(162+185+196+213) / 12 = £63$

Dr electricity	71
Cr accruals	71

- 2 During the year ended 31st December 2012, a business paid its annual insurance bill for the 12 months from 1st July 2012 for a sum of £1800.

What is the necessary prepayment at 31st December 2012?

Prepayment = 6 months insurance

$$6 \text{ months insurance} = 1800/12 * 6 = 900$$

Dr Prepayments	900
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Cr Insurance	900
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